CAN-FER MINES LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31

1965

CAN-FER MINES LIMITED

Officers	PAUL PORZELT - - - - - - - - - - - -	Chairman
	C. A. BURNS - - - - - - - - - - - -	President
	WILLARD M. GORDON, Q.C. - - - - -	Secretary-Treasurer
Directors	LEONARD BUGHMAN - - - - - - - -	Ligonier, Penn.
	C. A. BURNS - - - - - - - - - - -	Toronto, Ont.
	WILLARD M. GORDON, Q.C. - - - - - -	Toronto, Ont.
	R. J. ISAACS - - - - - - - - - - -	Toronto, Ont.
	JOHN KEMMERER, JR. - - - - - - - -	New York, N.Y.
	PAUL PORZELT - - - - - - - - - - -	New York, N.Y.
	MALCOLM RICHARDSON - - - - - - -	Toronto, Ont.
Auditors	GUNN, ROBERTS & CO. - - - - - - -	Toronto, Ont.
Transfer Agent and Registrar	THE STERLING TRUSTS CORP. - - - - - -	Toronto, Ont.
Solicitors	KILMER, RUMBALL, GORDON, DAVIS & SMITH -	Toronto, Ont.
Consultants	RINGSLEBEN AND BURNS - - - - - - -	Toronto, Ont.
Head Office	100 ADELAIDE STREET WEST - - - -	Toronto, Canada

CAN-FER MINES LIMITED

directors report

Dear Shareholder:

The year 1965 was a most eventful one for your company. Under terms of an agreement dated March 25, we gave an option on our iron ore property near Kowkash to Algoma Steel Corp. On July 31, 1965 Algoma exercised this option and we received the sum of $1,300,000 in cash plus a most valuable royalty agreement.

The details of this royalty agreement were mailed to you with a proxy statement on April 26, 1965. For those of you who become stockholders after that date, the royalty agreement provides, in summary, for a 99-year lease of our property to Algoma Steel on the following terms:

(a) Until Algoma starts to build a plant for the production of iron ore pellets, the company is to pay Can-Fer an advance royalty of $200,000 per year, payable one month after the end of the year, for a period of twenty years, except that no such royalty shall be payable for a period of four years starting from commencement of actual plant construction.

(b) Beginning with the first commercial shipment of pellets mined from your lands, Algoma is to pay Can-Fer the following royalties on ore mined by open cut mining operations: 40¢ per gross ton shipped during the first year; 50¢ during the second year; 60¢ during the third year; and 65¢ per gross ton of such pellets shipped thereafter.

On pellets produced from ore mined from underground, the royalty will be 30¢ per gross ton of pellets shipped. The definition of underground ore is protected by a "prudent and economcial mining" formula.

The above royalty rates would be changed in direct proportion to increases or decreases in the published price of Lake Superior pellets at lower lake ports.

During the period of 20 years commencing with the date of the first commercial shipment, the above royalties will be subject to a minimum of $350,000 per annum. This minimum payment would be reduced if steel ingot production in Canada falls below 75% of rated capacity.

The agreement contains other provisions such as arbitration clauses, the right to check on weights and iron ore contents, the treatment of other minerals which might be found on your property and payments on renewal of the lease.

Great credit for the discovery and development of your company's iron ore deposit is due to the founder of Can-Fer, Mr. Harry L. Isaacs. His sudden death early last year was greatly regretted by the mining community and your board of directors.

It was following Mr. Isaac's death that the undersigned was elected chairman of the board and chief executive. Shortly thereafter, the company obtained the services of Mr. C. A. Burns as general manager and president. Mr. Burns had been acting as consultant for Can-Fer under Mr. Isaacs and was thoroughly familiar with our problems.

With the lease of the property to Algoma and the receipt of $1,300,000, your board of directors decided to engage in an exploration program. Offices have been taken at 100 Adelaide Street West and we are endeavouring to build up an exploration staff.

A worldwide minerals rush is on. The booming economies of Canada, the United States as well as most of the rest of the world, combined with depletion of some key sources of minerals, is spurring a sharp increase in exploration and development. Your company feels that it is in a strong position to participate in this trend.

Since we wrote you on November 19 last, we have staked 18 claims covering a new copper find in the Home Lake area about 75 miles south-west of Port Arthur, Ontario. The company has contracted to make geophysical surveys of this find. Diamond drilling will follow if the surveys are encouraging. The company is looking also at other interesting properties and companies.

The enclosed balance sheet and profit and loss statement, as of December 31, 1965, certified by Gunn, Roberts and Co., shows cash of $23,824, and investments of $1,325,000 in time deposits bringing an average of about 5%. As a result, income is running currently at the annual rate of more than $250,000. Your board was pleased this year to be able for the first time to declare a dividend. It was felt this is in order provided it would not interfere with our exploration program and could be paid regularly on an annual basis in the future, barring unforeseen circumstances.

Your board, therefore, declared an initial dividend of 3 cents a share, payable March 11 to stockholders of record February 16, 1966. You will be asked to approve at the annual and special general meeting a by-law authorizing payment of the dividend.

Your management has no word from Algoma Steel as to its intentions concerning the building of production facilities on our Kowkash property. Algoma, it is reported, has completed the addition of a new sintering machine to expand its annual capacity at Wawa, Ont. on the Michipicoten range to 2 million tons of screened iron ore product. Algoma's steel producing capacity at present is 2,400,000 tons and will be substantially increased under a $175,000,000 expansion program announced last September.

It is estimated that Algoma, within a few years, will need additional iron ore supplies of around 3,000,000 tons a year. Therefore, it is reasonable to hope that Algoma will need Can-Fer ore before long.

It is the intention of your management to keep you fully informed regarding the progress which is being made in efforts to obtain promising mining properties for your company.

Yours very truly,

Paul Porzelt,
Chairman of the Board.

January 18, 1966.

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(Incorporated under the law

Balance Sheet—I

ASSETS

Current Assets		
Cash	$ 23,824.01	
Deposit receipts — Canadian Imperial Bank of Commerce	1,325,000.00	
Accounts receivable	1,050.28	
Accrued royalty receivable	83,333.33	$ 1,433,207.62
Mining Claims: (note 1)		
Patented mining claims and mining claims held under lease in the Kowkash and Port Arthur mining divisions, Ontario, at cost		203,255.37
Expenditures Deferred		
Exploration and administrative expenditures less amounts written off		1,029,409.62
		$ 2,665,872.61

Approved on behalf of the Board:

PAUL PORZELT, Director.

W. M. GORDON, Director.

AUDITORS' REPORT T

We have examined the balance sheet of Can-Fer Mines Limited as at December and statements of retained earnings and exploration and administrative expenditures def review of the accounting procedures and such tests of accounting records and other supp

In our opinion the accompanying balance sheet and statements of income, retained position of the company as at December 31, 1965 and the results of its operations for t a basis consistent with that of the preceding period.

Toronto, Ontario
January 18, 1966

ES LIMITED

the Province of Ontario)

cember 31, 1965

LIABILITIES

Current Liabilities			
Accounts payable and accrued liabilities		$ 15,755.69	
Dividend payable March 11, 1966		103,027.80	$ 118,783.49
Shareholders' Equity			
Capital stock (note 2)			
Authorized — 6,000,000 shares of $1 each			
Issued — 3,434,260 shares	$ 3,434,260.00		
Less discount	2,000,732.00	1,433,528.00	
Retained earnings		1,113,561.12	2,547,089.12
			$ 2,665,872.61

HE SHAREHOLDERS

1965 and the statement of income for the period August 1, 1965 to December 31, 1965, for the period July 1, 1963 to December 31, 1965. Our examination included a general evidence as we considered necessary in the circumstances.

ıings and exploration and administrative expenditures deferred present fairly the financial ·iod then ended, in accordance with generally accepted accounting principles applied on

GUNN, ROBERTS AND CO.,
Chartered Accountants.

CAN-FER MINES LIMITED

STATEMENT OF INCOME

For the period August 1, 1965 to December 31, 1965

(Revenue under lease commenced August 1, 1965)

Revenue			
Royalties from lease of mining claims		$ 83,333.33	
Interest		26,879.82	$ 110,213.15
Expenses			
Exploration			
Assays and core boxes	$ 30.00		
Bulk sampling	587.50		
Engineering and consulting fees and expenses	3,541.80		
Maps and blueprints	140.80		
General camp expense	312.66		
Mining licenses	100.00		
Claim staking and surveys	675.00		
Travelling and transportation	1,323.63		
Geology fees	2,000.00		
Helicopter rental	400.00	9,111.39	
Administrative			
Directors' fees	800.00		
Executive salaries	2,500.00		
Legal and audit	1,640.02		
Telephone	330.21		
Transfer agent	385.04		
Travelling	785.80		
Publicity and shareholders' information	1,297.80		
Directors' expenses	233.94		
Office rental	650.00		
Salaries	1,625.00		
Office expense and stationery	58.88		
General expense	80.28	10,386.97	19,498.36
			90,714.79
Deduct portion of deferred exploration and administrative expenditures written off			90,714.79
Net income for period			Nil

STATEMENT OF RETAINED EARNINGS

For the period July 1, 1963 to December 31, 1965

Received under option agreement (note 1)		$ 1,340,000.00
Deduct		
Deficit at July 1, 1963	$ 28,565.96	
Items written off:		
Incorporation and stock registration	28,845.12	
Commission on capital stock	66,000.00	
Dividend of 3¢ per share payable March 11, 1966	103,027.80	226,438.88
Balance at December 31, 1965		$ 1,113,561.12

CAN-FER MINES LIMITED

STATEMENT OF EXPLORATION AND ADMINISTRATIVE EXPENDITURES DEFERRED

For the period from July 1, 1963 to December 31, 1965

Expenditures July 1, 1963 to July 31, 1965		
EXPLORATION		
Assays and core boxes	$ 29.00	
Bulk sampling	2,118.00	
Bunk house and cookery	77.40	
Engineering and consulting fees and expenses	19,402.49	
General camp expenses	186.91	
Maps and blueprints	64.92	
Mining licenses, claim transfers and abstracts	2,863.36	
Cost of patent applications and lease rentals	20,496.98	
Travelling and transportation	42.48	
Mine buildings and equipment written off	21,408.68	
Workmen's compensation and unemployment insurance	586.46	$ 67,276.68
ADMINISTRATIVE		
Directors' fees	500.00	
Executive salaries	17,799.32	
Legal and audit	21,476.20	
Telephone	3,693.47	
Transfer agent	721.87	
Travelling	6,173.16	
Publicity and shareholders' information	5,043.88	
Directors' expenses	1,792.51	
Office rental	7,085.00	
Salaries	10,476.00	
Office expense and stationery	136.37	
Office equipment written off	802.00	
General expenses	691.97	
Interest, bank charges and foreign exchange	1,451.63	77,843.38
Expenditures July 1, 1963 to July 31, 1965		145,120.06
Balance deferred at July 1, 1963		975,004.35
Balance deferred at July 31, 1965		1,120,124.41
Deduct portion written off on statement of income		90,714.79
Balance deferred at December 31, 1965		$ 1,029,409.62

CAN-FER MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1965

1. Under the terms of an agreement dated March 25, 1965 the company granted an option to Algoma Steel Corporation, Limited to lease the company's mining claims. The sum of $1,340,000 has been received by the company upon the exercising of this option and a long-term lease, to be computed from August 1, 1965 has been entered into under terms as summarized below:

   (a) an annual royalty of $200,000 for a period of 20 years or until the date of the first shipment of iron ore pellets except for a period of 4 years starting from commencement of actual plant construction. These annual payments are to be applied against royalties as calculated in (b) below.

   (b) commencing with the first shipments of iron ore pellets royalty will be payable on a per ton basis of pellets shipped with a minimum annual royalty of $350,000.

2. During the period from July 1, 1963 to December 31, 1965, 470,666 shares of the company's capital stock were issued as follows:

Shares		Consideration
380,000	for cash consideration of	$ 147,000
36,000	in satisfaction for cash advances of $9,000 by another company	9,000
16,666	in settlement of notes payable	5,000
38,000	in settlement of directors' advances	12,300
470,666		$ 173,300

Summary of shares issued

	Shares	Par Value	Discount less Premium	Net
July 1, 1963	2,963,594	$2,963,594	$1,703,366	$1,260,228
Issued July 1, 1963 to December 31, 1965 (see above)	470,666	470,666	297,366	173,300
December 31, 1965	3,434,260	$3,434,260	$2,000,732	$1,433,528

Under an agreement now in the course of preparation, the company has granted an option to an officer of the company to purchase 50,000 shares of its capital stock at $1.25 per share exercisable up to May 11, 1968, or until the later expiry of any renewal of the agreement.

CAN-FER MINES LIMITED

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